

National Energy Policy
Subcommittee on Energy and Air Quality

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Witness List and Prepared Testimony

Panel I

The Honorable Curt Hebert, Jr., Chairman, Federal Energy Regulatory Commission
888 First Street, NE
Washington DC, 20426

Ms. Elizabeth Campbell, Director, Natural Gas Division, Energy Information Administration
1000 Independence Avenue, SW
Washington, DC 20585

Panel II

Mr. Cuba Wadlington Jr., President and CEO, Williams Gas Pipeline
On behalf of:
Interstate Natural Gas Association of America
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49th Floor
Tulsa, OK 74172

Mr. Jerry Jordan, Chairman, Jordan Energy, Inc.
On behalf of:
Independent Petroleum Association of America
1101 16th Street NW, Suite 200
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Mr. Richard G. Reiten, President & CEO, NW Natural
On behalf of:
American Gas Association
220 Northwest Second Avenue
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Mr. Andrew Littlefair, President, Pickens Fuel Corp
On behalf of:
Natural Gas Vehicle Coalition
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Ms. Roberta A. Luxbacher, Vice President-Americas, Exxon Mobil Gas Marketing Co.
On behalf of:
Natural Gas Supply Association

800 Bell Street
Room 3507 B
Houston, TX 77002

Mr. Walker Hendrix, Council, Kansas Citizens=Utility Ratepayer Board
1500 SW Arrowhead Road
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Mr. Jack Hilliard, General Manager, Florence Utility
On behalf of:
American Public Gas Association
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Mr. Jas Gill, Vice President, Manufacturing, CYTEC Industries, Inc.
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Mr. Patricio Silva, Project Attorney, Natural Resources Defense Council
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**Testimony excerpts follow. Go to
<http://www.house.gov/commerce/hearings/eaq2282001/02282001.htm> for complete written statements.**

The Honorable Curt Herbert Jr.

Chairman
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC, 20426

Summary of Testimony

The Commission's primary role in the natural gas industry is to ensure that adequate pipeline infrastructure is available to serve the growing demand for natural gas at just and reasonable rates. Since the Wellhead Decontrol Act of 1989, the Commission has had no jurisdiction over the prices charged by natural gas producers at the wellhead. The Commission retains only limited jurisdiction over certain sales for resale in interstate commerce. The Commission's primary jurisdiction is to: (1) authorize the construction of interstate pipeline transmission and storage facilities; and, (2) set the rates, terms, and conditions of service for interstate transportation and storage of natural gas.

Since wellhead decontrol and the Commission's open access transportation program, there has been a well-functioning, competitive market for the sale of the natural gas commodity. From the mid-1980s until this winter's heating season, competition among natural gas producers and marketers has resulted in readily available supplies at prices lower than during gas price regulation. This winter prices have risen primarily due to an imbalance between supply and demand. However, the current high prices provide the necessary market signal to producers for increased production, and producers have significantly increased their drilling activity. Although there is a time lag between increased drilling and a supply response, an increase in gas supplies should help moderate the recent price increases.

The Commission can help mitigate price increases by exercising its jurisdiction over the certification of new pipeline projects to ensure that newly developed supplies can reach the market quickly and where needed. Also, both the Commission and the states must eliminate current bottlenecks that limit the transportation of natural gas to areas where demand is highest. I will do everything I can to ensure that the Commission quickly processes certificate applications for pipeline projects that will meet these needs. To the extent these bottlenecks are within state jurisdiction, however, the states must similarly undertake to improve their infrastructure. I recognize the critical importance to your constituents, and to our country, of having an adequate natural gas transportation infrastructure.

Ms. Elizabeth Campbell

Energy Information Administration

1000 Independence Avenue, SW

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Summary

Natural gas prices have been high this past winter by any measure. Residential consumers have faced large bills for delivered gas because of a combination of strong demand and high commodity prices. Spot prices were highest in late December and early January, corresponding with cold temperatures. Gas spot prices at Henry Hub in southern Louisiana reached as high as \$10.53 per thousand cubic feet (Mcf) on December 29, 2000, but fell below \$6 the week of February 19, 2001. The California market has been the location experiencing the highest spot prices.

The high national prices have been due to a number of factors, including record-setting demand for natural gas in 2000. At 22.7 Tcf, demand increased approximately 1 Tcf over the 1999 level. The year-to-year production increase was about 0.5 Tcf. The gap between consumption and production was closed by record levels of gas imports. Strong demand throughout 2000 meant that smaller quantities of natural gas were injected into storage for use during this winter's peak demand.

EIA projects that this winter spot wellhead natural gas prices will average about \$6.10 per Mcf, more than two and one half times the price of the previous winter season (prices expressed in nominal dollars). Assuming normal winter weather and continued low underground storage levels, the annual average wellhead price in 2001 is projected to be about \$5 per Mcf, an increase from the price of \$3.60 per Mcf in 2000. In The Annual Energy Outlook 2001 natural gas consumption is expected to increase at an average rate of 2.3 percent per year for the next two decades, reaching a consumption level of 35 Tcf in 2020. EIA forecasts are contained in the Short-Term Energy Outlook and the Annual Energy Outlook 2001 and can be reviewed at www.eia.doe.gov.

Mr. Cuba Wadlington

President and CEO

Williams Gas Pipeline On Behalf of Interstate Natural Gas Association of America

1 Williams Center

49th Floor

Tulsa, Oklahoma, 74172

Mr. Chairman, my name is Cuba Wadlington. I am President and CEO of Williams Gas Pipeline. I am here today to testify on behalf of the Interstate Natural Gas Association of America (INGAA). INGAA is the trade association that represents interstate natural gas pipelines in the United States, the inter-provincial pipelines in Canada and PEMEX in Mexico. These pipeline systems transport 90 percent of the natural gas consumed in the United States.

Williams, through its subsidiaries, connects businesses to energy and to communications. The company delivers innovative reliable products and services through its extensive networks of energy distributing pipelines and high-speed fiber-optic cable. Williams Gas Pipeline has five interstate natural gas pipelines that deliver natural gas from coast to coast in every geographic region of the United States. On any given day, Williams Gas Pipeline delivers to market 17%-20% of the natural gas that flows in the United States.

..... Finally, INGAA supports establishment of an R&D effort between DOE and OPS to develop improved and new technologies to better assess and enhance pipeline safety. While INGAA's member companies have been supporting pipeline safety research for over 50 years through both the Gas Research Institute (now the Gas Technology Institute) and the Pipeline Research Committee, we are pleased that DOE is focusing on research for pipeline safety. There may be some valuable research at the DOE labs that could ultimately be applied to help us inspect and monitor our pipelines. INGAA believes that it is important that DOE coordinate its efforts with the Office of Pipeline Safety as well as the above research committees to maximize the "bang for the buck" of these new investments in order to bring enhanced and new technologies to market.

Mr. Jerry Jordon

Chairman

Jordon Energy, Inc On Behalf of Independent Petroleum Association of America
1101 16th Street
Washington, DC, 20036

Summary Of Testimony

A Nation Dependent on Fossil Fuels

The US is currently dependent on fossil fuels and will continue to be. Petroleum and natural gas account for 65 percent of the nation's energy supply

Independent Producers B The Linchpin to Future Domestic Petroleum and Natural Gas

Independent producers drill 85 percent of domestic wells, produce 40 percent of domestic petroleum and 65 percent of domestic natural gas; their role will only increase in the future.

Recognizing the Role of the Market

Future energy policy should rely on the market as much as possible.

For natural gas there is a strong free market because it is largely North American; however, oil markets are defined by international geopolitics.

A health oil production industry is essential for a healthy natural gas industry because they are inherently intertwined.

Providing Access to Essential Capital

Investment in domestic natural gas exploration and production needs to increase by \$10 billion annually over the next 15 years; federal tax policy will play a significant role in whether this capital will be invested.

There are several tax reforms that have wide, bipartisan support that need to be enacted quickly; there is a further need to develop tax policy to encourage additional investment.

Providing Access to The Natural Resource Base

The 1999 National Petroleum Council Natural Gas study concluded that the domestic resource base is adequate to meet future demand if it is accessible

Access has been limited both congressionally and administratively because of fears of environmental consequences; the Department of Energy study demonstrates that safe drilling and production can be done.

While some access issues will require congressional action, others are a result of regulatory constraints; energy supply consequences need to be a consideration in all federal actions.

There's No Short Term Fix B Recovery Will Take Time

Any realistic energy policy will take time to implement.

The domestic industry lost 65,000 jobs during the oil price crisis; about 40 percent of these have been recovered B but not with the same skills.

Clear policies must encourage the environmentally sound development of the nation's resources to meet future needs.

Independent producers will be a key factor, if they are given the opportunity.

Mr. Richard G. Reiten

President & CEO of NW Natural
On Behalf of the American Gas Association
220 Northwest Second Avenue
Portland, Oregon, 97209-3991

Good afternoon, Chairman Barton and members of the subcommittee. I am pleased to be here today to present the views of the American Gas Association on national energy policy legislation and the role of natural gas.

AGA represents 185 local natural gas distribution companies, which deliver natural gas to 50 million customers in the United States. NW Natural is the largest natural gas distributor in the Pacific Northwest. We are headquartered in Portland, Oregon and serve Western Oregon and southwestern Washington State. Ample, reliable energy supply at affordable prices is key to providing economic and national security for Americans.

AGA recognizes that, while the United States has tremendous energy resources, America's current energy supply and infrastructure will not, in the future, sustain our growing economy. Therefore, we need to act now to meet our country's energy needs for the 21st Century.

..... New Technologies and Energy Efficiency

We must continue to improve natural gas end-use technologies and to develop new technologies to provide industrial, commercial and residential consumers with environmentally friendly gas equipment that conserves energy and lowers fuel bills. Great strides in efficiency have already been made.

The average homeowner uses 16% less natural gas than in 1980 due to more efficient gas appliances and better insulated homes. Federal energy policies should measure the total efficiency of energy technologies, from the source of the fuel to the use of the energy. 50% of the energy benefits are lost in using gas to generate electricity to do a job, such as heating water, as compared to using gas to heat the water. Natural gas used directly in homes, industries and businesses is inherently efficient. Recognizing this inherent efficiency of the direct use of gas is an example of what we mean by an energy policy that utilizes each fuel in our national portfolio to its best advantage.

Federal spending on gas related RD&D should be increased to support advanced end-use equipment such as fuel cells, microturbines, cooling and NGVs. As new products are developed, tax incentives are appropriate to stimulate market acceptance of selected highly efficient and environmentally beneficial gas technologies. The federal government can lead by example through funding a vigorous implementation of the Federal Energy Management Program and the use of efficient gas technologies to replace outdated, less environmentally friendly equipment. Legislation establishing a new DOE grant program to increase energy efficiency in school buildings will also assist in reducing energy demand and reducing costs to an important sector.

Finally, AGA recommends that the federal government coordinate its energy policy development at the highest level. We commend President Bush for establishing a task force on Energy Policy Development, led by Vice President Cheney and consisting of the Secretaries of the major Cabinet agencies concerned with energy, the environment and the economy. We are hopeful that this task force will not only set the parameters of a viable long term national energy policy, but will establish policies and procedures that will assure that all Federal agencies consider the impact their programs have on the nation's energy security.

Mr. Andrew Littlefair

President

Pickens Fuel Corp On behalf of: Natural Gas Vehicle Coalition

3030 Old Ranch Pk

Suite 280

Seal Beach, California, 90740

Introduction

Mr. Chairman and Members of the Committee, my name is Andrew J. Littlefair. I am the President of Pickens Fuel Corp. (PFC). PFC, incorporated in 1997, owns and operates over 30 natural gas fueling stations in Southern California and Arizona. In California, the PFC network serves an area from San Francisco in the north to Orange County in the south to Riverside and San Bernardino Counties in the east. In Arizona, PFC owns four stations in the greater Phoenix area, including a state-of-the-art liquefied natural gas (LNG) fueling station in Tempe.

In addition to my position with PFC, I also am a Board Member of the Natural Gas Vehicle Coalition, the national trade association dedicated to promoting new markets for natural gas vehicles. I also serve on the Board of the California Natural Gas Vehicle Coalition, an organization dedicated to increasing the use of natural gas vehicles in California.

..... The NGVC and other alternative fuel industries supported passage of S. 2591, the Alternative Fuel Tax Incentives Act, during the 106th Congress, and we are working toward introduction of similar legislation in the 107th Congress. This bill provides tax incentives to lower the cost for consumers of owning alternative fuel vehicles. If enacted, the tax incentives will stimulate market demand for alternative fuel vehicles (such as NGVs) and will put us on the road to a self-sustaining market for nonpetroleum fueled vehicles. PFC and the NGVC urge Congress to act quickly and enact incentive legislation this year. We also urge the Congress to continue to fund the Department of Energy's Clean Cities Program, which has been an important catalyst in developing new markets for alternative fuel vehicles, and to expand funding for NGV RD&D.

..... Research, Development and Demonstration (RD&D)

Expand Funding for Alternative Fuel RD&D. Significant R&D is still needed on alternative fuel vehicles to (1) improve engine efficiency, (2) further reduce engine emissions, (3) reduce the cost and improve the reliability of fueling infrastructures, and (4) demonstrate alternative fuel systems in new applications. DOE's programs in this area should be substantially expanded in line with the new Five-Year NGV RD&D Plan developed jointly by the NGV industry and DOE.

Expand Alternative Fuels as Part of Existing Advanced Automotive Technology R&D. The use of alternative fuels could play a very important role in the deployment of advanced automotive technologies, such as hybrid and fuel cell vehicles. Existing federal advanced vehicle programs, however, have focused on liquid (primarily, petroleum-based) fuels for these vehicles. Congress should provide additional funding for RD&D on gaseous fuels for advanced technology vehicles.

..... Conclusion

On behalf of Pickens Fuel Corp. and the Natural Gas Vehicle Coalition, I appreciate the opportunity to provide our views on these critical issues. It is clear that the US must take steps to lessen its dependence on foreign oil. Natural gas vehicles can help to significantly reduce dependence on foreign oil. It also is clear that America's urban areas must reduce their levels of air pollution. Natural gas vehicles are the cleanest vehicles commercially available today. The US currently has the best technology in the world for using alternative transportation fuels. It is critical for the US to capitalize on this technological edge and begin to move alternative fuels into the marketplace. As explained in our written statement, government incentives continue to be necessary to make this happen. With government

incentives and leadership, the private sector can greatly expand the market for alternative transportation fuels.

Ms. Roberta A. Luxbacher

Vice President-Americas
Exxon Mobile Gas Marketing Co. On Behalf of Natural Gas Supply Association
800 Bell Street
Room 3507 B
Houston, Texas, 77002

I am Roberta Luxbacher, Vice President - Americas for ExxonMobil Gas Marketing Company.

I am here today speaking as Chairperson, on behalf of the Natural Gas Supply Association, which represents major integrated and independent producers.

Mr. Chairman, the NGSA and all its members are looking forward to working with your Committee and we welcome this opportunity to present our views for developing a national energy policy.

As you know, Mr. Chairman, natural gas is one of our nation's most robust and important energy sources. Over a year ago, the National Petroleum Council estimated recoverable natural gas resources in the Lower-48 states at over 1,400 trillion cubic feet. At the current rate of domestic consumption this is equal to more than 60 years of gas supply.

Producers, of which there are over 8000 in the United States, are individually doing all they can to economically develop these resources to meet current and projected demand for natural gas.

- + The number of operating gas drilling rigs has more than doubled from April of 1999, when gas prices were at a five year low, to over 900 today.
- + Producers are actively exploring new frontiers such as Canada, Alaska North Slope, deepwater Gulf of Mexico and coal bed methane in our western states
- + and we are proactively developing and applying new technology.

However, our country's energy needs cannot be met by the producers actions alone.

A clear and comprehensive long-term approach to energy policy is needed. The energy policy decisions of today must avoid the mis-steps of the past, and serve the long-term strategic interests of the country. Our country's economic growth is tightly linked to having reliable and competitive sources of energy.

Mr. Walker Hendrix

Counsel
Kansas Citizen's Utility Ratepayer's Board
1500 Sw Arrowhead Road
Topeka, Kansas, 66604

My name is Walker Hendrix. I am the Consumer Counsel for the Kansas Citizens= Utility Ratepayer Board (CURB). My office advocates for the lowest public utility rates which may be established for residential and small business customers in Kansas. Like most consumer offices, CURB has been extremely preoccupied with the concerns of ratepayers over the spiking price of natural gas during this winter season.

CURB is a long time member of the National Association of State Utility Consumer Advocates (NASUCA). NASUCA is an organization of 42 state utility consumer advocate offices form 39 states and the District of Columbia.

..... V. Conclusion

Perhaps we have been lulled to sleep after so many years of abundant, inexpensive natural gas supplies. Clearly, this winter was a wake up call. This is a unique opportunity to consider national energy policy goals and potential programs that will accomplish those goals. Prices merely reflect imbalances in supply and demand. The policy goal of minimizing supply and demand imbalances over the long term can, and must be accomplished. Maintaining consistent growth in the supply and deliverability of natural gas accompanied by incentives that encourage conservation and efficient use, as well as maximum flexibility to switch between fuels, will insure that supply and demand remain in balance over time, and that consumers will be protected from the types of prices we now know can occur when supply and demand are not in balance. Thank you for the opportunity to offer this testimony today.

Mr. Jack Hilliard

General Manager
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ONE-PAGE SUMMARY

APGA joins those calling for a sound, comprehensive, environmentally responsible energy policy. We do not believe that there is one solution or a silver bullet to relieve the hardship that high natural gas prices have caused Americans over the last six months. We believe, however, that Congress can take steps that will increase the supply and deliverability of natural gas, bring down prices, and ensure that adequate and reliable supplies in the long run.

The first step Congress should take is to investigate the reasons why many Americans are paying natural gas prices that are 400% higher than what they paid last winter. By comparison, such a rate of increase would send gasoline prices at the pump to \$5 per gallon. The increases in the price of natural gas this past year have not been incremental—they have been breathtaking and historic. Natural gas is the lynchpin to our Nation's energy policy. Congress must assure Americans that it is fairly priced.

APGA submits that the reasons for high natural gas prices go beyond the simple laws of supply and demand. Even as prices broke record after record, there have been no natural gas shortages like there were in the 1970s. APGA believes that the absence of any real shortages in the presence of tremendous price increases suggests a very real possibility of price manipulation. In the short run, we have not experienced a natural gas supply crisis; we have had a natural gas pricing crisis. The question we are asking Congress to focus on is: will additional supplies of natural gas in the future prevent the price spikes that we have faced this past year? Or will we repeat this pricing crisis that is doing great harm to our Nation's economy today?

APGA calls on Congress to investigate: (1) the impact of commodity trading of natural gas on the prices paid by consumers; (2) the impact of trading gas on private exchanges; (3) the methods used to determine index prices; (4) the role of mega-marketers in setting prices and in building the Nation's natural gas reserves; and (5) the impact of reliance on natural gas for electric generation.

STATEMENT

My name is Jack Hilliard, and I am the General Manager of Florence Utilities in Florence, Alabama. I am appearing on behalf of the American Public Gas Association (APGA), of which Florence is a member. APGA is the national association of over 572 municipal and other publicly-owned local distribution systems in thirty-six states. APGA members own and operate natural gas distribution systems serving their communities. They include municipal gas distribution systems, public utility districts, county districts, and other public agencies that have natural gas distribution facilities. There are approximately 1,000 publicly-owned local gas distribution companies ("LDCs") in the United States, serving more than 4.6 million natural gas customers.

We thank the Chairman and the Committee for the opportunity to allow the public gas perspective to be heard. We hold some views that depart from the positions held by the investor-owned LDCs. Publicly-owned gas systems are not-for-profit retail distribution entities owned by and directly accountable to the citizens they serve. Also, APGA members remain in the resale business whereas many investor-owned distributors have departed the gas acquisition function under retail deregulation.

Mr. Jas Gill

Vice President, Manufacturing
CTYEC Industries, Inc
10800 River Road
Westwego, Louisiana, 70094

About Mr. Gill:

Jas Gill is Vice President of Manufacturing for CYTEC, Industries, Inc., a specialty chemicals and materials company. He holds a BS in Chemical Engineering from Oklahoma State University and an MBA from the University of Chicago. Mr. Gill

manages CYTEC's chemical complex at Fortier, which is in Jefferson Parish, Louisiana, a position he has held since 1997. For over 20 years prior to that he worked in high-level managerial capacities for Olin Corporation in Lake Charles, Louisiana; Joliet, Illinois;

and Charleston, Tennessee. He has been active in community and governmental affairs for his entire career. Most recently, he has served as Chairman of the Board of the Louisiana Chemical Association and continues to serve as one of its directors. He is currently a gubernatorial appointee to a group studying the redesign of the Louisiana Department of Economic Development. He and his wife, Bindy, have two sons and live in LaPlace, Louisiana.

Summary of testimony:

Mr. Gill is testifying on behalf of the Louisiana Chemical Association, an organization that represents the interests of over 70 companies which are in the chemistry business at 100 locations throughout the state. Louisiana's industries use nearly one trillion cubic feet of natural gas annually, approximately 10 percent of the nation's total. The recent spike in natural gas prices has severely impacted the state's petrochemical production, especially the ammonia and caustic chlorine businesses, which use natural gas as a feedstock and/or as fuel for the cogeneration of electricity and steam. Louisiana produces 40 percent of the nation's ammonia, and 80 percent of the ammonia goes into fertilizer. Since the price of gas is approximately 80 percent of the costs associated with the production of ammonia, production costs have skyrocketed. Unable to absorb the increases or to pass them along in price adjustments, many plants have been idled. This does not portend well for the nation's farming community and for the American economy as a whole. Mr. Gill calls for an energy policy which recognizes the essentiality of natural gas as a feedstock; opening previously untapped areas to exploration; and a longer range strategy to integrate a region's natural resources base into clusters which promote international competitiveness and smart investment of capital.

Mr. Patricio Silva

Project Attorney
Natural Resource Defense Council
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Key recommendations:

Maximize the benefits of existing natural gas supplies by increasing efficiency: provide tax incentives for the construction of energy-efficient buildings and for manufacturing energy-efficient heating and water-heating equipment.

Develop and maintain infrastructure to deliver gas supplies: adopt a comprehensive pipeline approach ensuring that pipelines are constructed and operated in an environmentally sensitive manner, with strong safety oversight, full compliance with all environmental laws and, whenever possible, along existing routes.

Reject plans to construct an offshore pipeline along the Arctic National Wildlife Refuge coastal plain.

Plan an Alaska gas pipeline if needed to deliver Prudhoe Bay gas to the lower 48 states that follows the Trans-Alaska Pipeline System and the Alaska-Canadian Highway right-of-ways; complies with all U.S. and Canadian environmental laws; has a thorough, new environmental impact statement; and incorporates the best pipeline safety and environmental measures.

Do not drill in sensitive offshore areas, including the moratorium areas, off Alaska and in the eastern Gulf of Mexico.

Maintain existing protections for sensitive onshore public lands and extend protection to other special places.

The Natural Resources Defense Council is a national nonprofit organization of scientists, lawyers, and environmental specialists, dedicated to protecting public health and the environment. Founded in 1970, NRDC serves more than 400,000 members from offices in New York, Washington, Los Angeles, and San Francisco.

Of the three fossil fuels that dominate the U.S. energy market, natural gas is by far the cleanest burning fuel. It is, therefore, a key part of NRDC's energy policy as the bridge to greater reliance on cleaner and renewable forms of energy.

..... Conclusion

Natural gas is the cleanest burning fossil fuel. NRDC supports increased utilization of natural gas in high efficiency combined combustion turbine for the generation of electricity. Energy efficiency should be the primary source of this incremental natural gas supply to the power sector. NRDC supports responsible expansion of natural gas pipeline infrastructure where needed. NRDC opposes, and sees no need for, natural gas development in sensitive areas.